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# NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

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## THESIS

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### DEFENSE BUDGET CONTROL IN THE EVENT OF EMERGENCY

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**By: Masakazu Sakunaka**  
**June 2013**

**Advisors:**      **Juanita M. Rendon**  
                         **Philip J. Candreva**

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**DEFENSE BUDGET CONTROL  
IN THE EVENT OF EMERGENCY**

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Submitted in partial fulfillment of the requirements for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

from the

**NAVAL POSTGRADUATE SCHOOL  
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# **DEFENSE BUDGET CONTROL IN THE EVENT OF EMERGENCY**

## **ABSTRACT**

The purpose of this thesis is to give recommendations to the government of Japan for better provision of budget in contingent situations. To accomplish the objective, this thesis explains how a government should control the provision of adequate and timely budgets in the military. Literature shows that routine budget process has a control function and four basic steps. A shorter process to fund emergencies is found in the U.S.'s practical cases for contingency funding, though there are some risks of misuse. If the contingency funds cannot provide adequate money, supplemental appropriations are enacted. Japan has a supplemental budget and a national reserve fund. Learning from the practice of the U.S., Japan should set aside its national reserve fund for possible contingent events. In addition, Japan should make use of the national reserve fund and a supplemental budget for providing enough money in the event of an emergency. The government of Japan and the Diet should pay attention to keep control of the budget for the nation as the U.S. does.



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## **LIST OF ACRONYMS AND ABBREVIATIONS**

NDPG	National Defense Program Guidelines
JSDF	Japan Self Defense Force
PPBE	Planning, Programming, Budgeting and Execution
NSS	National Security Strategy
NDS	National Defense Strategy
NMS	National Military Strategy
DPG	Defense Programming Guidance
FG	Fiscal Guidance
POM	Program Objectives Memorandum
FEMA	Federal Emergency Management Agency
DRF	Disaster Relief Fund
GWOT	Global War on Terror
OCOTF	Overseas Contingency Transfer Fund
DoD	Department of Defense
GAO	General Accounting Office
DERF	Defense Emergency Relief Fund
OMB	Office of Management and Budget
JMOD	Japan Ministry of Defense



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# **I. INTRODUCTION**

## **A. BACKGROUND**

In 2010, the Japanese government revised the National Defense Program Guidelines (NDPG) because the security environment has changed since the previous program was established in 2005. *Defense of Japan* (the Annual White Paper on Defense) states a major characteristic of the 2010 NDPG is the “Dynamic Defense Force” (Japan Ministry of Defense, 2012, p. 115). There were some potential issues in the region surrounding Japan since the 1990s. For example, after a Chinese fishery vessel recently collided with Japan Coast Guard vessels off the coast of Senkaku Islands in 2010, and ships belonging to Chinese governmental entities intruded on Japanese territorial waters (Japan Ministry of Defense, 2012, p. 36). As the situation is getting sensitive, it is assumed a military contingency may arise. According to Pearson’s dictionary, a contingency is “an event or situation that might happen in the future, especially one that could cause a problem” (Pearson, 2003). In this thesis, contingency is defined as events that the military can dispatch in an emergency situation. It may be about time that the Japan Self Defense Force (JSDF) takes action to help demonstrate the nation’s will and its defense capabilities. Considering the possible need to deploy the JSDF at a moment’s notice, how can the Japanese government provide adequate financial resources quickly and seamlessly to protect national security while observing fiscal responsibility?

## **B. OBJECTIVE**

The purpose of this thesis is to give recommendations to the government of Japan for better provision of budget in contingency situations. To accomplish this objective, the following primary research question is addressed in this thesis. In the event of an emergency, such as contingent incidents, disasters, and wars, how should a government control the provision of adequate and timely budgets to the military? To answer the primary research question, several underlying questions will be addressed.

- How does the budgeting process work as a control measure of public expenditure?

- What is the difference between the routine budgeting process and the one required during a national emergency?
- How does the U.S. handle contingencies in actual cases?
- What are the differences or similarities between contingency budgeting in Japan and the U.S.?

### **C. METHODOLOGY**

Using information gleaned from a review of the literature examining the basic functions and principles of public budgeting, this thesis addresses the basic elements of routine budgeting that are often overlooked during a national emergency. The practices used for contingency budgeting in the U.S. will be evaluated against the characteristics of effective routine budgeting. After comparing the Japanese budgeting system with the U.S. system, a more effective method for Japan is addressed based on the practice of the U.S. examples.

### **D. ORGANIZATION**

In Chapter II, through the literature review, this thesis explores the significance of budgets, the controls applied in the routine budgeting process, and the modification of the budgeting process to meet special circumstances. This chapter also describes the four basic tasks in relation to the contingency budgeting process. Chapter III summarizes supplemental appropriations and contingency funds that the U.S. has used to fund contingencies. Chapter IV introduces the Japanese supplemental budget and national reserve fund and addresses the similarities and differences between the U.S. and Japan in this regard. Chapter V concludes with an examination of U.S. contingency funding methods and makes recommendations regarding these methods for Japan.

## **II. LITERATURE REVIEW**

This chapter, through the literature review, explains contemporary meanings of budget and control measures of public expenditure. In the latter part of this chapter, the principles of public expenditure management, which indicate the preferable environment for sound budget, are introduced.

### **A. THE SIGNIFICANCE OF BUDGETS**

#### **1. Budget Functions**

Wildavsky (1964) observes various meanings of budget which are summarized by Jones (2012). In contrast, Kramer (1979) simply states three basic uses of a budget, which are control, management, and planning. The two literatures raise different features, but control and planning are in common. As far as the ideas that Wildavsky (1964) proposed, Jones (2012) succinctly summarized them into nine points.

- Budgeting has to do with the transformation of financial resources into human purposes. Thus, a budget may be considered as a set of goals with price tags attached for execution sectors.
- A budget is a mechanism for making choices among alternative expenditures because funds are limited and have to be divided in one way or another. A budget can also be viewed as a plan or work plan for executing public policies.
- If the nation is interested in implementing a policy with the least cost, which is often required by taxpayers, a budget is an instrument that enables a nation to achieve this objective efficiently.
- From a different perspective, a budget is regarded as a contract. Funds are supplied under specified conditions, and entities given the funds must realize the fund's purpose. On the other hand, authorities such as Congress and department heads have obligations to supply funds appropriately. These mutual obligations signify a budget functioning as a contract.
- Proposed budgets that responsible agencies submit to a budget authority contain certain expectations for more money. Allocated dollar amounts indicate the agencies' preference to the budget authority or decision maker. This is important information for the next budget planning cycle.
- A precedent is a budget item that has been funded before and is highly likely to be funded again.

- “A tool to coordinate and control” (Jones, Candreva, & Devore, 2012, p. 3). “One budget coordinates diverse activities so that they complement one another in the achievement of common goal” (Wildavsky, 1964, p. 4). “Another budget may be put together primarily to discipline subordinate officials within a governmental agency by reducing amounts for their salaries and their project” (Wildavsky, 1964). There are the control functions of a budget.
- A budget is a call to supporters to mobilize support for an agency when programs appear to be underfunded or losing ground to other programs.
- “A representation in monetary terms of governmental activity” (Wildavsky, 1964).

This summary of Wildavsky’s descriptions is eloquent in terms of reflecting the modern American budgeting process. These functions define what government will do as a matter of routine and the control of those activities across political branches and within the executive. When a contingency happens, the budget for the matter may lose its functions such as a mechanism for alternative expenditure because the matter has to be dealt with urgently and as a priority, but it also requires political and management control.

Kramer (1979) says that a “budget has three main uses: control, management, and planning. A budget controls administrators by tying them to the stated policies of their superiors and legislative overseers. Control through budget is obtained through accounting practices and reporting procedures that restrict the transfer of funds from one account to another, limit the number of positions available to an agency, and create mountains of paper work” (Kramer, 1979, p. 5). These practices discourage financial malfeasance and encourage fiscal integrity. “The management aspect of a budget works in carrying out the approved plan of policies and makes the implementation efficient and effective” (Kramer, 1979, p. 5). These explanations depict actual governmental budgeting processes which are mainly carried out in the lower levels of the financial management organization.

## **2. Ten Principles of Sound Budgeting**

The literature reviewed so far examines budgets as a tool of control, which is how it is used by governments in developed countries. In order to understand how budgeting might look ideally, one may consult the *Public Expenditure Management Handbook* (The

World Bank, 1998). The information in this document was written for countries in which the system of governance is still developing, but it is meaningful here. Budgets have multiple purposes as a tool to exert legal control of executives, to allocate resources to strategic priorities, to promote macroeconomic stability, and to ensure managerial efficiency (The World Bank, 1998, p. 1). The handbook advocates the 10 principles of good budgeting and financial management as follows.

**Comprehensiveness and discipline:** An effective public budget takes a holistic approach to societal problems and the processes for collecting revenue and allocating those resources across capital and operating expenses should be appropriately linked to those goals. Also, a budget must encompass all the fiscal operations of government and force policy decisions. Disciplined processes restrain government in the amount of spending and the breadth of things on which it spends.

**Legitimacy:** In order to keep legitimacy, the decision-makers with the authority to be able to change the policy during the execution of the policy, or during budget formulation, should participate in policy decisions. For example, the department or agency responsible for implementing a policy should understand how their budget has been requested and authorized by their higher line of command.

**Flexibility:** Financial managers who execute a budget may need to respond to the situation in its sole discretion beyond the programmed decision when they get the relevant information about the changed situation. In that case, transparency and accountability should be included.

**Predictability:** The budget process and amounts should be predictable so that decision-makers, managers, and the public can rely upon a standard process and can have faith that decisions, once made, will be implemented.

**Contestability:** Tentative decisions should be contestable by those with a stake in the proposed policies. This factor in policy development ensures that policy will be refined and improved, and stakeholders have a voice in the process.

**Honesty:** A budget should be allocated with balanced revenue and expenditure. Biased allocation of budgets, such as allotting generous funds to lobbyist-guided



programs, misdirects strategic priority and kills the efficiency and effectiveness of policy implementation.

**Information:** Complete and unbiased information supports honesty and sound decision making. Accurate and timely information on costs, outputs, and outcome is essential.

**Transparency and accountability:** Keeping transparency and accountability is important to manage and control a budget and its execution. Although flexibility could be a reason to weaken control of tight budget execution, obligations for transparency and accountability encourage deliberate use of funds.

Some of these ten principles can apply to controls in the event of an emergency. For example, in a contingency situation, the situation is not predictable and there is no information beforehand. Therefore, it is difficult to budget for it. If the contingency budget will use a different process, that new process still must be comprehensive and flexible to adapt to conditions and must be based on good information and be accountable for the nation.

### **3. Budget Development Process**

This literature review illustrates the various aspects of budgets. From another perspective, four basic tasks are observable in budgeting processes. First, budgets propose policy. Wildavsky (1964) says “a budget is a mechanism for making choice” (p. 2). This means a budget proposes political choice. Kramer addresses how budgets can be used for planning. This also means a budget proposes a plan based on governmental policy. Thus, it can be said that budgets propose a policy.

Second, budgets approve and enact the policy. “A budget may be regarded as a contract” (Wildavsky, 1964, p. 2). In the process of budgeting, budgets approve policy in order to allocate monetary resources. At times, budget authorities also approve the implementation of a policy.

Third, budgets literally fund the policy. In terms of the budget cycle, policy authorization and funding policy occur at the same time. Technically speaking, though,

there are some more processes required to complete the policy, such as authorization, appropriation, and obligation. This is the routine process of budgeting.

Fourth, as Kramer (1979) described, budgets control the bureaucracy. Strict accounting practices and reporting regulations prevent fraud and abuse of budgets. Also, information to maintain transparency and accountability can control behavior of bureaucracy.

## **B. CONTROLS IN THE ROUTINE BUDGETING PROCESS**

### **1. Controls Seen in Ten Principles of Sound Budgeting**

The ten principles of sound budgeting include the concept of control. For example, flexibility could be a reason to weaken controls of tight budget execution. On the other hand, ensuring transparency and accountability may encourage controls with using proper information. Information enables budgets to be executed in a timely and accurate way, and it also helps control of expenditure management.

### **2. Controls in Management Cycle of Budgeting**

Kramer (1979) says budgets have a function of management. The management cycle is one of the control measures. Among the activities included in this cycle are reviews of previous plans and budget implementations through monitoring and accountability. Evaluation of the implementation and audit process, which is part of the cycle, is reported to the public. The review is reflected in the next policy making and budgeting period. Entities that undertake actions and budget are attentive about implementation when they know how the cycle works. This is why the management cycle is a key control measure. The *Public Expenditure Management Handbook* (The World Bank, 1998) shows the management cycle of policy, planning, and budgeting. (Figure1).

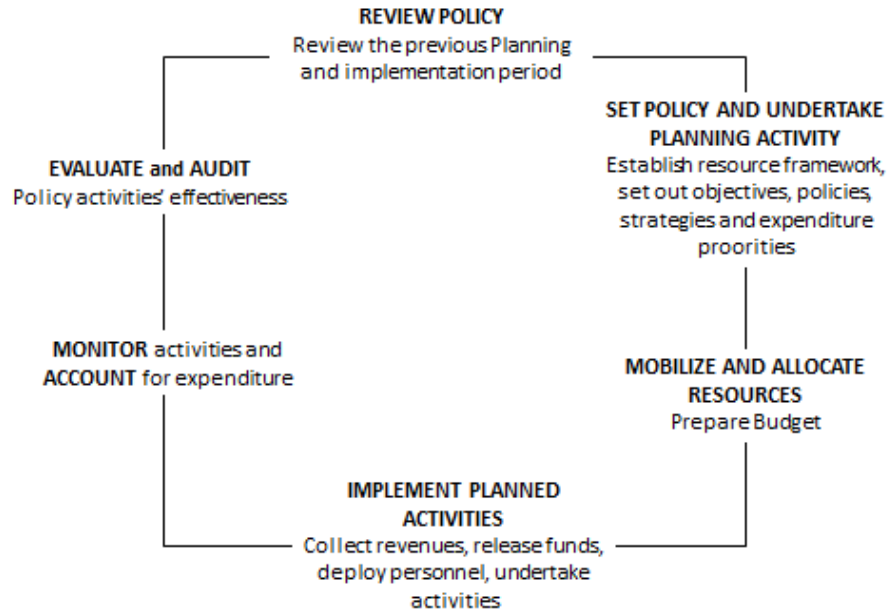


Figure 1. Linking policy, planning, and budgeting in the planning and resource management cycle (From The World Bank, 1998).

### 3. PPBE System as a Routine Process

#### a. *Overview of Relationship with OMB and Congress*

The budgeting process for the military in the U.S. is called the Planning, Programming, Budgeting, and Execution (PPBE) system. The defense department budgets across a five year time horizon, and each year they update the previous budget cycle and submit their budget plan to Office of Management and Budget (OMB). After review, the President's Budget is submitted to Congress. Congress scrutinizes the budget, calls individuals to examine the programs in the proposed budget, and modifies the President's Budget to reflect their policy preferences. The budget is enacted through the Authorization and Appropriation Acts (Jones, 2012). The process balances the power between the executive branch who proposes, and later executes, the budget and the legislative branch who decides on the final budget. With regard to the control of Congress in defense spending, Woodruff (2006) explains the process in detail.

***b. Plan, Program, Budgeting Phase***

The defense budget is based on the National Security Strategy (NSS), the National Defense Strategy (NDS), and the National Military Strategy (NMS). “The goal of planning, with respect to resource allocation decision making, is to identify any gaps or overmatches between the national military strategy and the extant and pending capabilities, and to produce objectives for the programming phase to address them” (Jones, 2012, p. 118). The final product of this phase is Defense Programming Guidance (DPG) issued by Secretary of Defense. DPG directs programming priority to the military departments. There is no control framework in this phase in terms of budgetary amount. However, there are some effective constraints in which the force’s capability is limited to the extent of achieving those strategies.

As the work transitions to the programming phase, resource allocation decisions get more challenging and a budget constraint is imposed by the fiscal guidance (FG). “The goal of programming is to allocate resources, constrained by the fiscal guidance (FG) and appropriations rules, among programs across a mid- range time horizon that best achieves the objectives defined in the Defense Programming Guidance (DPG)” (Jones, 2012, p. 121). The principal product in this phase is the Program Objectives Memorandum (POM).

The budgeting phase produces the budget justification books which provide the detailed budget information for each program. For example, they provide Congress with information composed of various tables and exhibits in the analytical perspectives, Historical Tables, the Appendices and other documentation that comprise the President’s Budget. As Jones (2012) indicates, “the primary aims of the budgeting phase are to ensure those justification books accurately describe the decisions made in the POM, are aligned with and reflect the plans to accomplish the NSS, NDS, NMS and other planning documents and are formatted in a fashion that serves the legislative function” (p. 131). In short, budgeting phase exists to justify the budget and policy in coordination.

*c. Execution Phase*

In contrast to the programming and budgeting phase, the executing phase is about policy output and outcome, not policy choice. “The goal of execution is to implement the programs and policies that were described in the budget--as approved or modified in the authorization and appropriation process--in order to deliver the desired military capabilities, and to feed information into subsequent rounds of the PPB process” (Jones, 2012, p. 140). Because the budget that is executed is provided in the statute (the Authorization and Appropriation Acts), there are strict controls over what may be purchased and when it may be purchased. Controls also ensure no more is spent than was authorized.

**C. SHORTER PROCESS TO FUND EMERGENCIES**

As summarized in the previous two sections, creating budgets occurs in four basic steps, and routine budgeting processes are effective at controlling routine activity. However, some federal level incidents, such as disaster relief and defense concerns, are not routine, and these incidents require a special process to deal with them in a timely and adequate manner. For example, after the terrorist attack of September 11, 2001, a supplemental appropriation was requested by the President. One week later, Congress approved the request without “strings” and appropriated twice as much money as the President requested (Candrea & Jones, 2005, p. 110). Normally, the President would have proposed policy first, but policy proposal was skipped because of urgency and clarity of the problem. In most cases, there is no need to debate whether a response is required, so the process is accelerated. Only an appropriation is required and not an authorization. Whereas the normal budget process takes more than a year to formulate and another eight months to enact; a supplemental emergency budget may take just weeks to prepare and approve, and in extreme cases, it can be done in just days.

This chapter explained contemporary meanings of budget and control measures of public expenditure. In addition, the principles of public expenditure management, which indicate the preferred environment for sound budget, were introduced. The next chapter will discuss the two ways that the U.S. has funded contingencies.

### **III. TWO WAYS THE U.S. HAS FUNDED CONTINGENCIES**

In the event of an emergency such as disasters and defense concerns, the U.S. government has provided funds in two ways. One is supplemental appropriation, and the other is contingency funding. This chapter describes the distinction between these two methods. Supplemental appropriation is provided after an emergency occurs, whereas contingency funding is prepared before the anticipated event of emergency.

#### **A. SUPPLEMENTAL APPROPRIATION**

Supplemental appropriation is a budget provided in addition to the base-year budget for emergency response and humanitarian assistance. Supplemental appropriation is usually enacted by Congress more quickly than the base-year budget; the former is usually approved within four months, while the latter takes as long as eight months (Jones, 2012, pp. 201-205). Supplemental appropriation can be classified into two types.

##### **1. Lump-Sum Supplemental Appropriation**

A lump-sum supplemental appropriation is used for unexpected events whose cost is yet to be known and has not been borne. For example, the Federal Emergency Management Agency (FEMA) requests a Disaster Relief Fund (DRF) every year up to \$500 million. When a larger disaster happens that may deplete the DRF, the President may submit a request for emergency supplemental appropriation (Lindsay & Murray, 2011, p. 8). This disaster-focused supplemental is basically a lump-sum appropriation focused on a goal and remediation of the disaster (McCaffery & Jerry, 2003, p. 70). In this sense, the Defense Emergency Response Fund (DERF) enacted immediately after the terrorist attacks on September 11 is another example of lump-sum supplemental appropriation. Congress requires reporting the outlay of the lump sum for the sake of monitoring and overseeing the supplemental appropriation. In terms of provision, the risk is that there is no funding until the event occurs.

## **2. Specific Supplemental Appropriation**

This supplemental appropriation specifies the amount to be spent. The agency diverts funds from another use, and those funds will be reimbursed later by the specific supplemental. For example, when rescue and evacuation missions actually occur in the Navy, the Navy expends money from its existing operation and maintenance account. After the event, a specific supplemental appropriation is appropriated, and it will be repaid based on the actual cost. This supplemental appropriation is controlled because the details of the costs are known and clear. Congress could invalidate the supplemental appropriation in each account if they find that the Navy has spent from an original account improperly. In this case, a military operation may be funded from their diverted account without the approval of the legislature until supplemental money is requested. Military operations such as rescue and evacuation are ordered by the executive branch, but at times, diverted funding can be obligated without the approval of Congress.

According to research on long-term military contingency operations (Evans, 2006), the U.S. has several historical examples of contingency funding such as the Vietnam War, the Persian Gulf War, the Bosnia/Kosovo Conflict, and the Global War on Terror (GWOT). Supplemental appropriation had also been used for funding efforts to address unforeseen emergency situations before the Vietnam War. (Evans, 2006, p. 8)

### **B. CONTINGENCY FUND**

A contingency fund is not part of the budgeting process, such as the base-year-budget and supplemental budget. Rather, it is a fund set aside in advance for particular purposes, such as disaster and military contingency. The advantage of this fund is to provide necessary money immediately; whereas supplemental appropriations require at least a few months to pass Congress (McCaffery & Jerry, 2003, p. 60). Depending on the type of expense, the fund can be classified into two ways: contingency direct fund and contingency transfer fund.

## **1. Contingency Direct Fund**

A contingency direct fund is the fund that is spent directly from a pool of money provided in addition to the normal budget. For example, the DRF provides money for a typical disaster relief effort whose outlays are less than \$500 million dollars.

Suppose a hurricane disaster happens, the affected area gets flooded, and victims need food, blankets, medicines, etc. Some places have emergency stock, but most things must be procured and transported from an undamaged area. Federal or local government immediately can sign contracts to get the supplies and a means of transportation if they have a contingency direct fund. Also, they get credit for payment to companies which provide supplies.

Rules for allocation of the DRF have been strictly established for years. After the President's declaration, FEMA officials determine the needs of aid to individuals and entities. There are three assistance categories: Individual Assistance, Public Assistance, and Hazard Mitigation. The methodology for determining the budget request is well established in four data points (Lindsay & Murray, 2011, p. 5). The amount of enacted appropriations varies every year. Moreover, most years, supplemental appropriations are enacted (see Table 1). The DRF is requested by means of a strict methodology and distributed by a legitimate spending process. This is a way to control budget for a potential future event. If the fund is not sufficient, additional supplemental appropriation is approved. These clear and solid steps make this fund transparent and accountable.

## **2. Contingency Transfer Fund**

A contingency transfer fund is established before a contingency. To spend the funds, they must be transferred into the usual account such as Operation and Maintenance. For example, the Overseas Contingency Transfer Fund (OCOTF) was established by the Department of Defense (DoD) Appropriations Act, 1997, to meet operational requirements in support of emerging contingency operations without disrupting approved program execution or force readiness. This fund had supported contingency. However, the General Accounting Office (GAO) claimed that the DoD's limited oversight and guidance had contributed to questionable use of the contingency fund (GAO, 2002, p. 18).



In another instance, the DERF was initially allowed to spend up to \$100 million so that the DoD did not deplete the funds to accomplish their missions. After the terrorist attacks on September 11, 2001, Congress provided a total of about \$38 billion to the DERF as part of DoD efforts to support the Global War on Terror until 2003 (Inspector General, 2009, p. 1). At times, the Office of Management and Budget (OMB) issued specific guidelines and criteria to apply in identifying and evaluating requirements to be funded. This was a special instruction to control the DERF, but the DoD did not provide enough guidance to military components on the use of the fund. (GAO, 2003, pp. 3-7) As a result, the needs for definitive guidance and increased oversight of contingency operations cost were recommended (GAO, 2003, p. 3).

Fiscal Year	Request	(Constant Dollars 2010 in Millions)		
		Enacted Appropriation	Supplemental	Total
1989	352	176	1,950	2,126
1990	451	164	1,919	2,083
1991	432	0	0	0
1992	286	288	6,207	6,495
1993	454	441	2,619	3,060
1994	1,698	430	7,530	7,960
1995	458	455	3,256	3,711
1996	445	309	4,408	4,717
1997	435	1,794	4,484	6,278
1998	3,623	428	2,141	2,569
1999	3,359	403	2,364	2,767
2000	3,521	3,521	0	3,521
2001	3,584	1,964	0	1,964
2002	1,660	805	0	805
2003	2,185	948	1,690	2,638
2004	2,258	2,078	2,555	4,633
2005	2,402	2,280	48,122	50,402
2006	2,315	1,915	6,491	8,406
2007	2,042	1,578	4,305	5,883
2008	2,035	1,419	11,108	12,527
2009	2,043	1,299	0	1,299
2010	2,000	1,600	5,100	6,700

Source : (Lindsay & Murray, 2011)

Table 1. Disaster Relief Fund (1989–2010).

### C. EVALUATION

In the event of emergency, all four steps that propose policies, enact policies, fund policies, and control bureaucracy, are not necessary because there is usually not a choice. The event should be dealt with immediately, and funding must be made available without creating new policy. It still requires enactment, but that process is faster because there is no need for debate.

Supplemental appropriations discussed in this chapter skip the step “propose policies” because of the urgency and clarity of the problem. DERF’s case right after the

terrorist attacks on September 11 is such a case which needs flexibility and which requires no debate to enact the appropriation. If the appropriated fund requires flexibility, it also needs information on the expense and accountability according to the ten principles. Regarding the characteristics of effective routine budgeting, controllability is questionable when contingency fund or supplemental appropriations are requested, because there is less information and accountability in this stage.

Contingency funds are basically approved in base-year-budget and provide money for contingencies quickly. As they are approved in advance, they also take steps of proposing policies, enacting policies, and funding policies while “controlling bureaucracy.” This is because strict accounting practices and reporting regulations are not enough as the GAO reports in the OCOTF’s case.

The U.S practice shows that the government and Congress maintain quickness and flexibility for funding contingencies by using contingency funds and supplemental appropriations. According to the reports of the GAO and Inspector General, both ways of funding do not have enough accountability and controllability. However, Congress and the GAO monitor the expense of the funds for the nation, and the OMB issues guidance for proper use of contingency funding. It can be evaluated that, as a whole, the U.S. government tries to control the contingency fund without losing quickness and flexibility of funding.

This chapter described the distinction between these two methods. Supplemental appropriation was provided after an emergency occurs, whereas contingency funding was prepared before the anticipated event of emergency. The next chapter will discuss contingency funding in Japan.

#### **IV. CONTINGENCY FUNDING IN JAPAN**

This chapter introduces the Japanese budget system possibly adapted to contingency situations. According to Pearson's dictionary, a contingency is "an event or situation that might happen in the future, especially one that could cause a problem" (Pearson, 2003). In this thesis, contingency is defined as events which the military can dispatch. Japan has a military equivalent service known as the Japan Self Defense Force (JSDF). Table 2 shows the record of major contingent events resolved by the JSDF since 1990. This data on major contingent activities show the likelihood of contingency cases in the future. However, since there is not enough information about the budget related to these activities due to lack of disclosure, this chapter uses the specific example of a domestic disaster and international cooperation activity.

No.	Name of the activity	Place	Period	Mobilized Personnel
1	Minesweeping activity in the Persian Gulf.	Persian Gulf	Apr.-Oct.1991	-
2	U.N Transitional Authority in Cambodia	Cambodia	Sep.1992-Sep.1993	600
3	Humanitarian Relief Operation for Rwandan Refugees	Ruwanda	Sep.-Dec.1994	378
4	Maritime security operation for spy ship off the Noto Peninsula	Japan Sea	Mar.1999	-
5	Transportation for disaster relief in Iran	Japan to Iran	Sep.-Nov. 1999	426
6	Anti-Terrorism Support	Indian Ocean	Nov.2001-Nov.2007	320
7	U.N Transitional Administration in Timor-Leste	Timor-Leste	Mar.2002-Jun.2004	405
8	Disaster relief activity the Great Hanshin-Awaji Earthquake	Kansai District	Jan.-Apr.1995	over 10000
9	Humanitarian and Reconstruction Assistance in Iraq	Iraq	Jan.2004-Jul.2006	930
10	Maritime security operation for intrusion of submerged Chinese submarine into Japan's territorial waters	South west sea of Japan	Nov.2004	-
11	International Disaster Relief Activities in Thailand	Thailand	Dec.2004-Jan.2005	590
12	International Disaster Relief Activities in Indonesia	Indonesia	Jan.-Mar.2005	925
13	International Disaster relief Activities off Kamchatka	Russia	Aug.2005	346
14	Replenishment Support activity	Indian Ocean	Jan.2008-Feb.2010	330
15	Maritime security operation as a part of anti-piracy measures off the Coast of Somalia	Gulf of Aden	Mar.-Jul.2009	-
16	Implementation of destruction measures for ballistic missiles and other weapons	Around Japan	Mar.-Apr.2009	-
17	Anti-piracy operation	Gulf of Aden	Jul.2009-present	-
18	International disaster relief activities in Pakistan	Pakistan	Aug.-Oct.2010	514

Source: Defense of Japan 2011, Chronological Table and Reference 59

Note 1: "Major contingent activities" is defined by the number of mobilized personnel exceeded 300 in this table.

Note 2: As the numbers of mobilized personnel of operations such as maritime security operation are not announced officially, all operations ordered by Ministry of Defense are in the table.

Table 2. Major contingent activity of JSDF (1990–2010).

## **A. SUPPLEMENTAL BUDGET**

Public finance law article 29 allows for the establishment of a supplemental budget when an unexpected event happens after the normal budget has been formulated. The Diet establishes a supplemental budget every year, including the defense budget (see Table 3). Considering this law, the supplemental budget is available for contingency funding if the budgeting process is quick enough to deal with a contingency. As a matter of fact, the disaster relief activities in the Great East Japan Earthquake were funded by a supplemental budget which was enacted three times (Japan Ministry of Defense, 2011). The Diet approved the first supplemental budget in two months and passed two consecutive supplemental budgets for the sake of recovering from the Great East Japan Earthquake in 11 months. (Sakiyama, 2012, p. 3) Nine months after the disaster, the Reconstruction Agency was established to manage the recovery from the disaster. The budget request for recovery was shifted to the normal budget in 2012 (Sakiyama, 2012, p. 10). This example indicates that the way of providing money to the Japan Ministry of Defense (JMOD). JMOD is similar to the U.S. specific supplemental case because JMOD requested the amount that they had spent to support the disaster relief effort based on cost reports from each of the armed services.

A lump-sum supplemental appropriation seen in the U.S. budgeting method is not found in Japan. This is because Japan has a national reserve fund which has a similar function to the lump-sum supplemental appropriation method.

					(Billion Yen)
FY	Total supplemental	Defense related Supplemental portion	Total Supple/Defense related (%)	Normal Defense budget	Supple/Normal (%)
1990	3,414	95	2.8%	4,159	2.3%
1991	266	54	20.3%	4,386	1.2%
1992	-728	26	-3.6%	4,552	0.6%
1993	5,082	-23	-0.5%	4,641	-0.5%
1994	349	-32	-9.2%	4,684	-0.7%
1995	7,047	10	0.1%	4,724	0.2%
1996	2,666	4	0.2%	4,845	0.1%
1997	1,143	5	0.4%	4,948	0.1%
1998	10,322	21	0.2%	4,940	0.4%
1999	7,159	-17	-0.2%	4,932	-0.3%
2000	4,783	-2	0.0%	4,936	0.0%
2001	3,700	20	0.5%	4,955	0.4%
2002	2,459	-35	-1.4%	4,956	-0.7%
2003	150	-50	-33.3%	4,953	-1.0%
2004	4,768	10	0.2%	4,903	0.2%
2005	4,522	39	0.9%	4,856	0.8%
2006	3,772	56	1.5%	4,814	1.2%
2007	895	40	4.5%	4,802	0.8%
2008	5,850	38	0.6%	4,780	0.8%
2009	14,010	46	0.3%	4,774	1.0%
2010	4,429	9	0.2%	4,790	0.2%
Source: Statistics of general account normal budget and supplemental budget ( <a href="http://www.mof.go.jp/budget/reference/statitics/data.htm">www.mof.go.jp/budget/reference/statitics/data.htm</a> )					

Table 3. Total supplemental budget and defense related budget in Japan.

## B. NATIONAL RESERVE FUND

Article 87 of the Constitution of Japan allows that “in order to provide for unforeseen deficiencies in the budget, a reserve fund may be authorized by the Diet to be expended upon the responsibility of the Cabinet. The Cabinet must get subsequent approval of the Diet for all payments from the reserve fund.” (Prime Minister of Japan and His Cabinet, 1946) The Cabinet has requested a certain amount of reserve fund every

year as Table 4 shows. The Diet has approved the national reserve fund even when the fund had no specific objectives. In fact, the expense has varied, ranging from military activities to national election-related expenses, as well as anti-virus infection support expense and Anti-Terrorism support activity of the JSDF (Ohishi, 2009, p. 16). For instance, in 2001, under the cooperative activities based on the Anti-Terrorism Special Measures Law, the Japanese government dispatched naval ships to the Indian Ocean in order to support the Maritime Intercept Operation performed by a multi-national force. The Cabinet decided to use the national reserve fund to support this activity because it was required to deploy quickly in response to international demand for the activity. This activity was funded for three years (Ohishi, 2009, p. 16). However, the Anti-Terrorism Special Measures Law was supposed to expire in two years, and the JSDF could not request the budget for a third year because they could not predict whether the activity would continue after the law expired. This is one reason they have had to use the national reserve fund for three years.

In contrast to the U.S. contingency fund, the national reserve fund does not have a particular purpose when the normal budget is formulated. The fund becomes available up to the designated amount in advance if all the Cabinet members agree to use the national reserve fund. As Article 87 states, the Cabinet must report all payments from the reserve fund to the Cabinet. The Cabinet, as a check function, approves the expense of the reserve fund, but this is not an effective method from the control perspective. In fact, the Diet disapproved the expenditure of the national reserve fund four times in the past. (Ohishi, 2009, p. 13) It could be said that the national reserve fund inherently has the potential for misuse or undesirable use of the fund for the Diet and the nation.



Financia Year	Normal Budget(NB)	Supplemental budget	Year total	(Bilion Yen)	
				Expense	Usage % of NB
1990	350	-25	325	323.9	93%
1991	150	0	150	144.5	96%
1992	350	-150	200	103.7	30%
1993	350	-200	150	111.3	32%
1994	350	-200	150	148.5	42%
1995	350	-150	200	57.8	17%
1996	350	-150	200	198.6	57%
1997	350	-200	150	22.1	6%
1998	350	-200	150	3.9	1%
1999	350	-150	200	10.6	3%
2000	350	-150	200	48.6	14%
2001	350	-100	250	124.7	36%
2002	350	-150	200	35.8	10%
2003	350	-100	250	131.9	38%
2004	350	-50	300	110.7	32%
2005	350	-50	300	110.8	32%
2006	350	-100	250	29.8	9%
2007	350	-100	250	59.7	17%
2008	350	-100	250	29.7	8%
Note: Except 1991, reserve fund is reduced when supplemental budget is enacted, and the money is allocated to specific program.					

Table 4. National Reserve Fund in Japan.

### C. COMBINED USE

As mentioned in previous sections, the Japanese budget system has two ways to fund a contingency. Practically speaking, the national reserve fund and supplemental budget are complementing each other. For example, the disaster relief activities following the Great East Japan Earthquake were mainly funded by supplemental budget, but the supplemental budget includes the disaster relief reserve fund in case unexpected events happen in the process of the recovery and reconstruction activity (Sakiyama, 2012, p. 6). On the other hand, almost every year, unused national reserve funds requested by normal budgets are changed into a financial resource of the supplemental budget (Ohishi, 2009, p. 16). Table 4 indicates the reserve fund is sufficient to prepare for unexpected issues in

most years, and it transfers to a supplemental budget as a financial resource. The supplemental budget funds JMOD activity most years as Table 3 shows. All these facts indicate that the supplemental budget and the national reserve fund are used in combination.

#### **D. SUMMARY**

The Japanese supplemental budget system is similar to the U.S. specific supplemental appropriation method because they have a similar reimbursement style based on actual cost data and because the supplemental budget needs approval of the Diet and Congress. Regarding a national reserve fund, the concept that prepares money quickly for an unexpected event is the same as the contingency fund. Different from the U.S. contingency funds, the national reserve fund in Japan does not have a particular purpose when it is budgeted. Moreover, the national reserve fund only requires subsequent approval of the Diet.

This chapter introduced the Japanese budget system possibly adapted to contingency situations. The next chapter addresses conclusions and recommendations.

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## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **A. CONCLUSION**

The research question answered by this thesis is as follows:

In the event of an emergency, such as contingent incidents, disasters, and wars, how should a government control the provision of adequate and timely budgets to the military?

The U.S. government and Congress provide for contingency funds which can be used for emergencies in the base-year budget. Contingency funds respond to the time-sensitive requirement for funds rather than adequacy of funds. If contingency funds cannot provide adequate money, which means that the event is serious enough to deplete contingency funds, supplemental appropriations are requested and enacted. Contingency funds are basically controlled by specific regulations, but the regulations cannot eliminate the misuse of funds as seen in the cases of the DERF and the OCOTF. Regarding the budgeting process of supplemental appropriations, emergency processes skip some budget development steps while the normal budget development process gives a certain measure of control. Important findings in this thesis show that the contingency fund and national reserve fund are more likely to be misused than a supplemental budget, and the supplemental budget is more likely to be misused than a normal budget because these funds and budgets skip the control process. Therefore, the type of budget request must be re-evaluated continuously as time passes after a contingency event has happened. This period of review allows the government to correct information about the event when the event lasts, and they can budget accordingly. The federal government and Congress make the decision and must assume the risk of skipped steps and limited controllability.

### **B. RECOMMENDATION FOR JAPAN**

First, based on recent experience, the government of Japan should set aside 4.3% of the national reserve fund for forthcoming military contingency events, and it should prepare several feasible scenarios of contingency events such as maritime security operations. Based on that scenario, a guideline regarding the fund should be prepared to

keep control of the expense. Generally, the national reserve fund is reduced by a supplemental budget and is allocated to other programs. Once the fund is allocated to specific programs, it is hard to re-allocate it to contingency events in a timely manner without enacting supplemental budget. The Japanese government allocates supplemental budget to JMOD every year. Of course, JMOD has specific and inevitable reasons to request supplemental budget every year. However, focusing on the amount of the defense-related supplemental portion (column 3 on Table 3), the average amount of supplemental defense budget a year was 15 billion yen for the last 20 years. Table 4 shows that the national reserve fund was budgeted 350 billion yen every year for the last 20 years. Thus, it is reasonable to set aside 15 billion yen or 4.3% of national reserve fund for forthcoming military contingency events.

Second, the government of Japan should use the supplemental budget and national reserve fund together so as to provide enough money. As the Great East Japan Earthquake case indicates, the Japanese government has the ability to manage the supplemental budget and national reserve fund together. From a control perspective, rules and good controls can be established in disaster contingent funding as the DRF case indicates. However, the military contingent funding case does not necessarily provide controllability of funds. Therefore, the Cabinet of Japan has to operate the national reserve fund with effective control according to the OMB-issued specific guidelines and criteria for using DERF as in the U.S. case. The Diet has to keep monitoring the usage of the funds for the sake of the nation.

### **C. LIMITATION OF STUDY**

First, it is difficult to judge adequate budget level for military contingencies objectively. Cost report data do not fully tell us whether the funding level was satisfactory or not because they are solely quantitative. In order to truly investigate the satisfactory level of funding, personal voices of financial managers and service commanders need be heard. Although this thesis reviewed contingency funding based on GAO reports, it is still limited in its ability to prove the adequacy of funding in emergent battle fields for the above reason.

Second, this thesis did not consider the difference between the U.S. presidential system and the Japanese parliamentary system in regard to this topic. Generally speaking, in countries with a parliamentary system, bills proposed by the Cabinet can typically either be passed or rejected, whereas in the presidential system, there are usually provisions made for the amendment of proposed bills (Gorbanova & Wawro, 2011, p. 12). Thus, the differences in political systems may have an effect on the budgeting process and control.

Finally, constitutional background in regard to the military is different between the U.S. and Japan. Article 8 of the Constitution of the United States allows for the military force, but Article 9 of the Constitution of Japan does not permit a military force. This difference may have an impact on internal politics in the governmental entities and public attitude about military budget. The internal politics and public opinion affect the requirement of military budget control in an emergency. This thesis could not analyze this kind of relationship.

In summary, this chapter provided conclusions and recommendations for Japan and addressed the limitation of this research.

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